

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Village of Eagle	County Clinton
Fiscal Year End March 31, 2006	Opinion Date July 6, 2006	Date Audit Report Submitted to State September 15, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

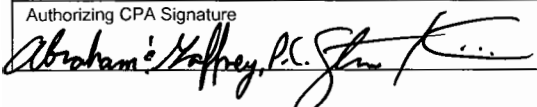
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☒ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	None	
Certified Public Accountant (Firm Name) Abraham & Gaffney, P.C.		Telephone Number (517) 351-6836	
Street Address 3511 Coolidge Road, Suite 100		City East Lansing	State MI
Zip 48823			
Authorizing CPA Signature 	Printed Name Steven R. Kirinovic, CPA		License Number 1101022020

**Village of Eagle
Clinton County, Michigan**

FINANCIAL STATEMENTS

March 31, 2006

Village of Eagle

Clinton County, Michigan

March 31, 2006

BOARD OF TRUSTEES

Richard Feldpausch	President
Mildred Cooper	Clerk
Loretta Feldpausch	Treasurer
Kyle Stiffler	Trustee
Kathryn Momany	Trustee
Paul Bruder	Trustee
Geneva Leonard	Trustee
Gregory Zoll	Trustee
Thomas Feldpausch	Trustee

Village of Eagle

TABLE OF CONTENTS

March 31, 2006

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	i
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements	
Statement of Net Assets	1
Statement of Activities	2
Fund Financial Statements	
Governmental Fund Balance Sheet	3
Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Assets	4
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Fund	5
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of the Governmental Fund to the Statement of Activities	6
Notes to Financial Statements	7-13
REQUIRED SUPPLEMENTARY INFORMATION	
GENERAL FUND	
Budgetary Comparison Schedule	14
MAJOR STREET FUND	
Budgetary Comparison Schedule	15
LOCAL STREET FUND	
Budgetary Comparison Schedule	16

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA



ABRAHAM & GAFFNEY, P.C.

Certified Public Accountants

3511 Coolidge Road
Suite 100
East Lansing, MI 48823
(517) 351-6836
FAX: (517) 351-6837

INDEPENDENT AUDITOR'S REPORT

To the Honorable President and
Members of the Village Council
Village of Eagle
Eagle, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the Village of Eagle, Michigan as of and for the year ended March 31, 2006, which collective comprise the Village's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Village of Eagle's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the Village of Eagle as of March 31, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The budgetary comparison information as identified in the Table of Contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Village has not presented a management's discussion and analysis (MD&A), which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that the MD&A is necessary to supplement, although not required to be part of the basic financial statements.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

July 6, 2006

BASIC FINANCIAL STATEMENTS

Village of Eagle

STATEMENT OF NET ASSETS

March 31, 2006

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 31,421
Due from other governmental units	<u>2,403</u>
Total current assets	33,824
Noncurrent assets	
Investments	318,168
Capital assets not being depreciated	31,525
Capital assets, net of accumulated depreciation	<u>43,081</u>
Total noncurrent assets	<u>392,774</u>
TOTAL ASSETS	426,598
LIABILITIES	-
NET ASSETS	
Invested in capital assets	74,606
Restricted for streets and highways	4,336
Unrestricted	<u>347,656</u>
TOTAL NET ASSETS	<u><u>\$ 426,598</u></u>

See accompanying notes to financial statements.

Village of Eagle

STATEMENT OF ACTIVITIES

Year Ended March 31, 2006

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	
Governmental activities:				
General government	\$ 4,755	\$ 12,400	\$ -	\$ 7,645
Public works	36,735	-	13,761	(22,974)
Other	5,586	-	-	(5,586)
Total governmental activities	<u>\$ 47,076</u>	<u>\$ 12,400</u>	<u>\$ 13,761</u>	(20,915)
General revenues:				
Property taxes				14,503
State shared revenue				10,284
Investment earnings				<u>12,452</u>
Total general revenues				<u>37,239</u>
Change in net assets				16,324
Net assets, beginning of the year				<u>410,274</u>
Net assets, end of the year				<u>\$ 426,598</u>

See accompanying notes to financial statements.

Village of Eagle

GOVERNMENTAL FUNDS BALANCE SHEET

March 31, 2006

	General	Major Street	Local Street	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 29,488	\$ 995	\$ 938	\$ 31,421
Investments	318,168	-	-	318,168
Due from other governmental units	-	1,677	726	2,403
TOTAL ASSETS	<u>\$ 347,656</u>	<u>\$ 2,672</u>	<u>\$ 1,664</u>	<u>\$ 351,992</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES	\$ -	\$ -	\$ -	\$ -0-
FUND BALANCES				
Unreserved				
Undesignated, reported in				
General fund	347,656	-	-	347,656
Special revenue funds	-	2,672	1,664	4,336
TOTAL FUND BALANCES	<u>347,656</u>	<u>2,672</u>	<u>1,664</u>	<u>351,992</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 347,656</u>	<u>\$ 2,672</u>	<u>\$ 1,664</u>	<u>\$ 351,992</u>

See accompanying notes to financial statements.

Village of Eagle

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

March 31, 2006

Total fund balance - governmental funds \$ 351,992

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 77,167
Accumulated depreciation is	<u>(2,561)</u>

Capital assets, net	<u>74,606</u>
---------------------	---------------

Net assets of governmental activities	<u><u>\$ 426,598</u></u>
--	--------------------------

See accompanying notes to financial statements.

Village of Eagle

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS

Year Ended March 31, 2006

	General	Major Street	Local Street	Total Governmental Funds
REVENUES				
Taxes	\$ 14,503	\$ -	\$ -	\$ 14,503
Intergovernmental	10,933	9,150	3,962	24,045
Interest and rents	24,243	595	14	24,852
TOTAL REVENUES	49,679	9,745	3,976	63,400
EXPENDITURES				
Current				
General government	4,522	-	-	4,522
Public works	8,202	15,719	11,208	35,129
Other	5,586	-	-	5,586
Capital outlay	9,025	-	32,609	41,634
TOTAL EXPENDITURES	27,335	15,719	43,817	86,871
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	22,344	(5,974)	(39,841)	(23,471)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	28,016	28,016
Transfers out	(1,000)	(27,016)	-	(28,016)
TOTAL OTHER FINANCING SOURCES (USES)	(1,000)	(27,016)	28,016	-0-
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	21,344	(32,990)	(11,825)	(23,471)
Fund balances, beginning of year	326,312	35,662	13,489	375,463
Fund balances, end of year	\$ 347,656	\$ 2,672	\$ 1,664	\$ 351,992

See accompanying notes to financial statements.

Village of Eagle

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended March 31, 2006

Net change in fund balances - total governmental funds \$ (23,471)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 41,634	
Depreciation expense	<u>(1,839)</u>	
Excess of depreciation expense over capital outlay		<u>39,795</u>

Change in net assets of governmental activities \$ 16,324

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Village of Eagle is located in Clinton County, Michigan and has a population of approximately 130. The Village of Eagle operates with a Village President/Council form of government and provides services to its residents in many areas including general government, highways and streets, and human services.

The Village Council is made up of the Village President, Clerk, Treasurer, and six (6) trustees who are selected at large for overlapping four year terms.

The financial statements of the Village have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to Village governments. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Village's more significant accounting policies are described below.

1. Reporting Entity

As required by generally accepted accounting principles; GASB Statement 14, *The Financial Reporting Entity* (as amended by GASB statement No. 39); and *Statement on Michigan Governmental Accounting and Auditing No. 5*; these financial statements present all financial activities of the Village of Eagle. The Village has no activities that would be classified as component units.

The inclusion of the activities of various agencies is based on the manifestation of oversight criteria, relying on such guidelines as the selection of the governing authority, the designation of management, the ability to exert significant influence on operations, and the accountability for fiscal matters. The accountability for fiscal matters considers the possession of the budgetary authority, the responsibility for surplus or deficit, the controlling of fiscal management, and the revenue characteristics, whether a levy or a charge. Consideration is also given to the scope of public service. The scope of public service considers whether the activity is for the benefit of the reporting entity and/or its residents and is within the geographic boundaries of the reporting entity and generally available to its citizens.

Based upon the application of these criteria, the financial statements of the Village of Eagle contain all the funds controlled by the Village Council.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the primary government as a whole. All activities of the primary government are included. For the most part, interfund activity has been eliminated in the preparation of these statements.

Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State revenue sharing payments and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

FUND FINANCIAL STATEMENTS

The fund financial statements present the Village's individual major funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The major funds of the village are:

- a. The General Fund is the Village's primary operating fund. It accounts for all financial resources of the general government except for those that are required to be accounted for in another fund.
- b. The Major Street Fund is used to account for the financial resources that are used for repairs and maintenance of the Village's major streets.
- c. The Local Street Fund is used to account for the financial resources that are used for repairs and maintenance of the Village's local streets.

3. Measurement Focus

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

4. Basis of Accounting

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements use the modified accrual basis of accounting. The Government-wide financial statements are prepared using the accrual basis of accounting.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used to define "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues that are considered measurable but not available are recorded as a receivable and deferred revenue. Significant revenues susceptible to accrual are property taxes, special assessments, and certain intergovernmental revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

5. Budgets and Budgetary Accounting

The General and Special Revenue Funds' budgets shown as required supplementary information to the financial statements were prepared on a basis consistent with the modified accrual basis used to reflect actual results. The Village employs the following procedures in establishing the budgetary data reflected in the financial statements.

- a. The Clerk submits to the Village Council the proposed operating budgets for the fiscal year commencing the following April 1. The operating budget includes proposed expenditures and resources to finance them.
- b. A Public Hearing is conducted to obtain taxpayers' comments.
- c. Prior to April 1, the budget is legally adopted with passage by Council vote.

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

- d. The budget is legally adopted at the activity level for the General Fund and the Special Revenue Funds.
- e. After the budget is adopted all transfers of budgeted amounts between accounts within a fund or activity or any revisions that alter the total expenditures of a fund or activity must be approved by the Village Council.
- f. The Village does not employ encumbrance accounting as an extension of formal budgetary integration in the governmental funds. Appropriations unused at March 31 are not carried forward to the following fiscal year.
- g. Budgeted amounts are reported as originally adopted or as amended by the Village Council during the year. Individual amendments were appropriately approved by the Village Council in accordance with required procedures.

6. Cash, cash equivalents, and investments

Cash and cash equivalents consist of checking accounts. The cash and cash equivalents are recorded at cost, which approximates market value.

Investments include a fixed annuity and certificates of deposit with original maturities of greater than 90 days from the date of purchase. All investments are stated at market value.

7. Property Tax

The Village of Eagle bills and collects its own property taxes. The Village's property tax revenue recognition policy and related tax calendar disclosures are highlighted in the following paragraph.

Property taxes are levied by the Village of Eagle on July 1 and are payable without penalty through September 15. All real property taxes not paid to the Village by September 15 are turned over to the Clinton County Treasurer for collection. The Clinton County Treasurer remits payments to all taxing districts on any delinquent real property taxes. Delinquent personal property taxes are retained by the Village for subsequent collection. Village property tax revenues are recognized as revenues in the fiscal year levied.

The Village is permitted to levy taxes up to 15 mills (approximately \$15 per \$1,000 of assessed valuation) for general governmental services. For the year ended March 31, 2006, the Village levied 6.0 mills for general governmental services. The total taxable value for the 2005 levy for property within the Village was \$2,422,759.

8. Interfund Transactions

During the course of normal operations, the Village has numerous transactions between funds, including expenditures and transfers of resources to provide services and construct assets. The accompanying financial statements generally reflect such transactions as transfers.

9. Capital Assets

Capital assets include land, streets, and equipment and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities column. Capital assets are those with an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. The Village is allowed to, and has elected to, report infrastructure (streets, bridges, etc.) prospectively beginning with the fiscal year ended March 31, 2006, and will not retroactively accumulate financial data for infrastructure in place prior to the current fiscal year.

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Machinery and equipment	5 - 15 years
Infrastructure	20 years

10. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since their inclusion would make the statements unduly complex and difficult to read.

NOTE B: CASH AND INVESTMENTS

In accordance with Michigan Compiled Laws, the Village of Eagle is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation (FDIC) or a savings and loan association which is a member of the Federal Savings and Loan Insurance Corporation (FSLIC) or a credit union which is insured by the National Credit Union Administration, but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or Federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities, issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Deposits

There is a custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Village's deposits may not be returned to it. As of March 31, 2006, the carrying amount of the Village's deposits were \$130,797 and the bank balance was \$131,197. As of March 31, 2006 the Village's accounts were fully insured by the FDIC.

Village of Eagle

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

NOTE B: CASH AND INVESTMENTS - CONTINUED

Due to significantly higher cash flow at certain periods during the year, the amount the Village held as cash and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

Investments

As of March 31, 2006, the market values, which are the carrying values for each investment, are as follows:

<u>INVESTMENT TYPE</u>	<u>Carrying Amount</u>	<u>Market Value</u>	<u>Standard & Poors' Rating</u>	<u>Weighted Average Maturity</u>
PRIMARY GOVERNMENT				
AIG - Fixed Annuity	\$ 218,792	\$ 218,792	AA+	1 year

Credit Risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's).

Interest rate risk

The Village has not adopted a policy that indicates how the Village will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates.

Concentration of credit risk

The Village has not adopted a policy that indicates how the Village will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Village's investment in a single issuer.

The cash and cash equivalents and investments referred to above have been reported in either the cash and cash equivalents or investments captions on the financial statements, based upon criteria disclosed in Note A. The following summarizes the categorization of these amounts as of March 31, 2006:

Cash and cash equivalents	\$ 31,421
Investments	<u>318,168</u>
	<u>\$ 349,589</u>

NOTE C: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

Transfers to Local Street Fund from:	
General Fund	\$ 1,000
Major Street Fund	<u>27,016</u>
	<u>\$ 28,016</u>

Village of Eagle

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

NOTE D: CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2006 was as follows:

	Balance April. 1, 2005	Additions	Deletions	Balance Mar. 31, 2006
Capital assets not being depreciated				
Land	\$ 22,500	\$ 9,025	\$ -	\$ 31,525
Capital assets being depreciated				
Equipment	13,033	-	-	13,033
Infrastructure	<u>-</u>	<u>32,609</u>	<u>-</u>	<u>32,609</u>
Subtotal	13,033	32,609	-0-	45,642
Less accumulated depreciation for:				
Equipment	(722)	(1,024)	-	(1,746)
Infrastructure	<u>-</u>	<u>(815)</u>	<u>-</u>	<u>(815)</u>
Subtotal	<u>(722)</u>	<u>(1,839)</u>	<u>-0-</u>	<u>(2,561)</u>
Net capital assets being depreciated	<u>12,311</u>	<u>30,770</u>	<u>-0-</u>	<u>43,081</u>
Net capital assets	<u>\$ 34,811</u>	<u>\$ 39,795</u>	<u>\$ -0-</u>	<u>\$ 74,606</u>

Depreciation expense was charged to the following governmental activities:

General government	\$ 233
Public works	<u>1,606</u>
Total depreciation expense	<u>\$ 1,839</u>

NOTE E: RISK MANAGEMENT

The Village carries commercial insurance for various risks of loss including general liability, property, bonding, and worker's compensation losses.

NOTE F: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

In the required supplementary information to the financial statements, the Village's budgeted expenditures in the General and major Special Revenue Funds have been shown at the functional classification level. The approved budgets of the Village have been adopted at the activity level for the General Fund and the fund level for the Special Revenue Funds.

Village of Eagle

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

NOTE F: EXCESS OF EXPENDITURES OVER APPROPRIATIONS - CONTINUED

During the year ended March 31, 2006, the Village incurred expenditures in the General Fund and Special Revenue Funds in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
General government			
Treasurer	\$ 900	\$ 976	\$ 76
Public works	7,935	8,202	267
Other	4,700	5,586	886
Other financing uses	-	1,000	1,000
Major Street Fund			
Public works	15,529	15,719	190
Other financing uses			
Transfer out	27,006	27,016	10
Local Street Fund			
Capital outlay	25,866	32,609	6,743

NOTE G: RESTRICTED NET ASSETS

Restrictions of net assets shown in the government-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes. The following is the net asset restriction as of March 31, 2006:

PRIMARY GOVERNMENT

Governmental activities

 Restricted for streets and highways

\$ 4,336

REQUIRED SUPPLEMENTARY INFORMATION

Village of Eagle

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended March 31, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes	\$ 14,000	\$ 14,000	\$ 14,503	\$ 503
Intergovernmental	10,000	10,000	10,933	933
Interest and rents	23,450	23,450	24,243	793
TOTAL REVENUES	47,450	47,450	49,679	2,229
EXPENDITURES				
Current				
General government				
Council	2,000	2,000	2,000	-0-
President	725	725	725	-0-
Clerk	920	920	821	99
Treasurer	900	900	976	(76)
Total general government	4,545	4,545	4,522	23
Public works				
Maintenance	200	1,995	2,030	(35)
Streetlights	3,000	3,000	3,232	(232)
Other	1,600	2,940	2,940	-0-
Total public works	4,800	7,935	8,202	(267)
Other				
Contracted services	3,500	3,500	4,388	(888)
Insurance	1,200	1,200	1,198	2
Total other	4,700	4,700	5,586	(886)
Capital outlay	10,000	10,000	9,025	975
TOTAL EXPENDITURES	24,045	27,180	27,335	(155)
EXCESS OF REVENUES OVER EXPENDITURES	23,405	20,270	22,344	2,074
OTHER FINANCING USES				
Transfer out	-	-	(1,000)	(1,000)
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING USES	23,405	20,270	21,344	1,074
Fund balance, beginning of year	326,312	326,312	326,312	-0-
Fund balance, end of year	\$ 349,717	\$ 346,582	\$ 347,656	\$ 1,074

Village of Eagle

Major Street Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended March 31, 2006

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Intergovernmental - State	\$ 9,600	\$ 9,600	\$ 9,150	\$ (450)
Interest	680	680	595	(85)
TOTAL REVENUES	10,280	10,280	9,745	(535)
EXPENDITURES				
Public works	6,600	15,529	15,719	(190)
EXCESS OF REVENUES OVER EXPENDITURES	3,680	(5,249)	(5,974)	(725)
OTHER FINANCING USES				
Transfer out	(2,405)	(27,006)	(27,016)	(10)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	1,275	(32,255)	(32,990)	(735)
Fund balance, beginning of year	35,662	35,662	35,662	-0-
Fund balance, end of year	<u>\$ 36,937</u>	<u>\$ 3,407</u>	<u>\$ 2,672</u>	<u>\$ (735)</u>

Village of Eagle

Local Street Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended March 31, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Intergovernmental - State	\$ 4,000	\$ 4,000	\$ 3,962	\$ (38)
Interest	17	17	14	(3)
TOTAL REVENUES	4,017	4,017	3,976	(41)
EXPENDITURES				
Public works	17,600	17,600	11,208	6,392
Capital outlay	-	25,866	32,609	(6,743)
TOTAL EXPENDITURES	17,600	43,466	43,817	(351)
EXCESS OF REVENUES (UNDER) EXPENDITURES	(13,583)	(39,449)	(39,841)	310
OTHER FINANCING SOURCES				
Transfer in	2,405	27,006	28,016	1,010
EXCESS OF REVENUES AND OTHER FINANCING SOURCES (UNDER) EXPENDITURES	(11,178)	(12,443)	(11,825)	1,320
Fund balance, beginning of year	13,489	13,489	13,489	-0-
Fund balance, end of year	\$ 2,311	\$ 1,046	\$ 1,664	\$ 618

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA



3511 Coolidge Road
Suite 100
East Lansing, MI 48823
(517) 351-6836
FAX: (517) 351-6837

MANAGEMENT LETTER

To the Honorable President and
Members of the Village Council
Village of Eagle
Eagle, Michigan

Dear Ladies/Gentlemen:

As you know, we recently completed our audit of the records of the Village of Eagle, Michigan for the year ended March 31, 2006. In connection with the audit, we feel that certain changes in your accounting and administrative procedures would be helpful in improving management's control and the operational efficiency of the accounting and administrative functions. These suggestions are the result of our evaluation of the internal control structure and our discussions with management.

1. Budgets should be adopted, monitored and amended when necessary.

As noted in the financial statements, some of the activities of the Village exceeded the amounts appropriated. The variances noted were in the General Fund and the Special Revenue Funds. It was also noted that there was not a formal budget resolution done to adopt and subsequently amend the budgets.

The Michigan Public Act 621 of 1978, as amended, provides that the Village adopt formal budgets for all applicable General and Special Revenue Funds, and shall not incur expenditures in excess of the amounts appropriated. Also, the Public Act requires amendments to be performed prior to incurring additional expenditures.

We suggest the Village monitor expenditures against adopted budgets and make appropriate budget amendments as needed. This adoption and any subsequent amendments should be included in a formal budget resolution detailing the budgeted expenditures and the budgeted revenues and fund balances that will be utilized to finance the budgeted expenditures

2. The Village should implement various written procedures and policies.

Based on our discussions with management, we noted that the Village has not formally adopted written procedures and policies for several areas of operation. Documenting specific policies and procedures allows employees to have a clearer understanding of management's expectations. It also allows management to have greater oversight over those areas over which they are responsible. Specifically, we suggest that the Village develop, formally adopt, and implement written procedures and policies in the following areas:

- a. Disaster recovery plan - We suggest the Village adopt a disaster recovery plan. The plan should identify areas of operation that are critical to the Village and detail how the Village would continue to operate in the absence of those critical areas of operation.
- b. Code of conduct - We suggest the Village adopt a code of conduct. The code should include a policy on conflicts of interest and the Village should require employees and Council members to periodically make a declaration of compliance.

2. The Village should implement various written procedures and policies - Continued.

- c. Capital asset policy - We suggest the Village adopt a capital asset policy which establishes a threshold for defining capital assets, authorizing the methods for acquiring and disposing of capital assets, and establishing useful lives and depreciation methods for each asset.

3. The Village should review the appropriateness of street fund transfers.

As noted in the financial statements, the Major Street Fund transferred \$27,016 to the Local Street Fund to finance current construction costs.

Effective February 26, 2004, transfers from Major to Local Street funds can only be used for preservation and may not exceed 25% of annual Major Street funding unless an asset management process has been adopted for the Major and Local Street systems.

We suggest the Village review the transfer from the Major to Local Street funds and work with the Michigan Department of Transportation to develop an appropriate asset management process.

4. The Village should adopt an investment policy to address the disclosure requirements of GASB Statement No. 40 and Michigan Compiled Law (MCL).

During the course of our audit and through discussions with administration, it was noted that the Village has not adopted an investment policy to address the issues required by MCL and the various areas of risk as described by GASB Statement No. 40. Deposit and investment resources often represent significant assets of the Village's funds. These resources are necessary for the delivery of the Village's services. Effective for the year ended March 31, 2006, GASB Statement No. 40 is designed to inform financial statement users about deposit and investment risks that could affect the Village's ability to provide services and meet its obligations as they become due.

We suggest the Village adopt an investment policy as required by MCL that also addresses custodial credit risk, concentration of credit risk, interest rate risk, and foreign currency risk, if applicable. Such policies are required to be disclosed in the notes to the Village's financial statements by GASB Statement No. 40.

5. The Village should review various areas of operation and consider additional segregation of duties.

During our consideration and assessment of fraud risk, we noted that the Village may not have sufficient segregation of duties in its accounting structure. The intent of internal control is to assure that no one individual or group of individuals be able to control all aspects of a transaction cycle (i.e., receipts, disbursements, etc.).

While this is a common occurrence in small organizations due to the limited number of employees, the Village Council should realize that a greater risk in safeguarding assets exists if duties and responsibilities are not appropriately arranged and separated.

We suggest that the Village review various areas of operation and consider additional segregation of duties. If duties cannot be adequately segregated due to the limited number of employees, we suggest all appropriate members of the Village Council provide a greater review and supervision of employee functions and procedures.

6. Certain aspects of the Village's investments should be evaluated.

During our analysis of the Village's investments, we noted that the investment in the AIG fixed annuity is comprised of corporate stocks and bonds and other investments which may not be in compliance with Michigan Compiled Law.

We suggest the Village assure in the future that all investment companies are aware of State statutes and Village policies prior to authorizing purchases of investments. In addition, the Village should work with its investment advisors to determine the allowability of these investments or to get these funds reinvested into investments which are in compliance with Michigan Compiled Law, if necessary.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the financial statements and this report does not affect our report on the financial statements dated July 6, 2006.

This report is intended solely for the use of management and the Village Council of the Village of Eagle, Michigan and should not be used for any other purpose.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these suggestions with you and to provide assistance in the implementation of improvements.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

July 6, 2006